

Background

The City of Rockville entered into an Agreement with Montgomery County in 1979 to obtain insurance coverage through the Montgomery County Self-Insurance Program (MCSIP).

In subsequent years, the MCSIP has amended the initial Participating Agency Agreement to terms that the City has not found favorable. The City has refused to sign the amended Agreement for each of the last 30 years, as review by City legal and risk management have all concurred that the terms are not amenable for signature.

The City was also recently notified that it would be removed from the MCSIP based on the City's refusal to sign the Participating Agency Agreement (signature would allow us to remain a member of the MCSIP).

More recently, the City was also informed that it can expect a FY11 contribution increase of approximately 35% - an increase in MCSIP insurance costs from \$1.3m in FY10 to \$1.8m in FY11. This increase is based both on City loss experience as well as MCSIP funding requirements.

In considering signature of the Participating Agency Agreement, concerns can be summarized as follows:

- a. The County has the unilateral ability to overrule decisions made by the participating agencies (or our determination as to what is in the City's best interest) in regards to claims settlement.
- b. The County has the authority to set insurance limits for the participating agency.
- c. The County can dictate the scope of coverage - that is, what will be defended in the event of a claim.
- d. The County mandates that the participating agencies fund all claims through the life of the claim.
- e. The County reserves the right to change the coverage offered at any given time.

Alternate Insurance Options

With the combination of unfavorable Agreement terms and a significant increase in contributions required for insurance coverage through the MCSIP, the City has directly approached Local Government Insurance Trust (LGIT) and Injured Workers' Insurance Fund (IWIF) to research viable options.

Confirmed premium contribution of \$1.1m provided by LGIT and IWIF for all lines of insurance coverage (as compared to the MCSIP contribution of \$1.8m) effective FY11 have led to the following conclusions:

- a. Line item comparison approximates a \$700k reduction in FY11 costs (with administrative costs factored in we anticipate \$600k).
- b. The County has confirmed that under the present terms of the Agreement, the City will not be required to fund currently open claims.
- c. LGIT and IWIF loss control services, trainings and seminars should allow for improvement in loss outcomes and additional reduction in insurance cost.
- d. LGIT and IWIF both have specific expertise in public risk and provide roundtable interagency forums for best-practice discussion and conversation with Gaithersburg, Takoma Park, City of Bowie and the City of Salisbury indicate positive experiences with LGIT and IWIF.
- e. Coverage will remain appropriate and in some cases broadened although aggregate coverage amounts will be reduced from MCSIP levels.

Recommendation

An anticipated cost reduction of \$600k for FY 11, combined with improved loss control services and similar and acceptable coverage for City of Rockville exposures would support a recommendation to exit the MCSIP and secure the coverage offered by LGIT and IWIF. In addition, as we approach the FY11 renewal date, the City may be better positioned to research additional insurance options through the use of broker services.

Both LGIT and IWIF have offered confirmed quotations and have a history of stability and specific experience with the public sector. The issue of open claims will still need to be addressed and will likely be a function of identified actuarial findings and third party pricing. As these open claims will remain a liability whether or not we remain participants of MCSIP, they are not necessarily an impact on the decision for FY 11. It is recommended that COR strongly consider exiting MCSIP.